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# AltaLink, L.P.

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## Financial Statements (unaudited)

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For the three and six months ended  
June 30, 2009 and 2008

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**BALANCE SHEET**

(unaudited)

(in thousands of dollars)

As at	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable <i>[note 10]</i>	21,441	20,991
Prepaid expenses and deposits	16,713	11,476
Regulatory assets	999	516
	39,153	32,983
Property, plant and equipment <i>[note 5]</i>	1,537,837	1,223,606
Contributions in advance of construction	58,792	39,751
Operating and maintenance charges in advance	12,592	7,733
Regulatory assets, long-term	2,762	2,797
Accrued benefit pension asset	2,025	2,079
Goodwill	202,066	202,066
	\$ 1,855,227	\$ 1,511,015
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[note 10]</i>	\$ 59,273	\$ 42,965
Other liabilities	818	1,319
Regulatory liabilities	8,993	6,759
Current portion of long-term debt <i>[note 6]</i>	367	142
	69,451	51,185
Accrued employment benefits liabilities	2,716	2,442
Other liabilities, long-term	2,964	3,242
Contributions in advance of construction liability	58,792	39,751
Operating and maintenance charges deferred revenue	12,592	7,733
Regulatory liabilities, long-term	157,477	20,774
Asset retirement obligations <i>[note 4]</i>	148,825	60,181
Long-term debt <i>[note 6]</i>	838,956	818,388
	1,291,773	1,003,696
<b>Contingencies <i>[note 13]</i></b>		
<b>Partners' equity</b>		
Partners' capital	451,036	408,536
Retained earnings	112,418	98,783
	563,454	507,319
	\$ 1,855,227	\$ 1,511,015

See accompanying notes to the financial statements

Approved on behalf of the Board of Directors

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Director

\_\_\_\_\_  
Director

**STATEMENTS OF INCOME, COMPREHENSIVE INCOME  
AND RETAINED EARNINGS**

(unaudited)

(in thousands of dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>REVENUE</b>				
Transmission tariff	\$ 57,003	\$ 54,822	\$ 112,554	\$ 109,046
Miscellaneous revenue	2,684	2,321	5,152	4,731
Allowance for equity funds used during construction	1,700	1,383	2,996	2,370
	<b>61,387</b>	58,526	<b>120,702</b>	116,147
<b>EXPENSES</b>				
Operating	18,681	17,976	35,528	32,466
Property taxes	4,267	4,324	8,662	8,526
Depreciation and accretion	19,090	17,850	37,973	35,498
	<b>42,038</b>	40,150	<b>82,163</b>	76,490
	<b>19,349</b>	18,376	<b>38,539</b>	39,657
Interest and amortization of deferred financing fees <i>[note 6]</i>	(10,736)	(10,746)	(21,050)	(21,754)
Allowance for debt funds used during construction	2,204	1,833	3,892	3,142
	<b>10,817</b>	9,463	<b>21,381</b>	21,045
Gains on disposals of assets	2,152	157	3,654	168
<b>Net and comprehensive income for the period</b>	<b>\$ 12,969</b>	\$ 9,620	<b>\$ 25,035</b>	\$ 21,213
<b>Retained earnings, beginning of period</b>	<b>\$ 105,149</b>	\$ 86,248	<b>\$ 98,783</b>	\$ 80,055
Distributions	(5,700)	(5,500)	(11,400)	(10,900)
Net income for the period	12,969	9,620	25,035	21,213
<b>Retained earnings, end of period</b>	<b>\$ 112,418</b>	\$ 90,368	<b>\$ 112,418</b>	\$ 90,368

See accompanying notes to the financial statements

**STATEMENT OF CHANGES IN PARTNERS' EQUITY**

(unaudited)

(in thousands)

	Units	Limited Partner	General Partner	Total
<b>Balance at December 31, 2007</b>	<b>331,904</b>	<b>\$ 488,549</b>	<b>\$ 42</b>	<b>\$ 488,591</b>
Net income for the year	—	40,724	4	40,728
Distributions	—	(21,998)	(2)	(22,000)
<b>Balance at December 31, 2008</b>	<b>331,904</b>	<b>507,275</b>	<b>44</b>	<b>507,319</b>
Net income for the period	—	25,033	2	25,035
Distributions	—	(11,399)	(1)	(11,400)
Equity investment received	—	42,500	—	42,500
<b>Balance at June 30, 2009</b>	<b>331,904</b>	<b>\$ 563,409</b>	<b>\$ 45</b>	<b>\$ 563,454</b>

See accompanying notes to the financial statements

## STATEMENT OF CASH FLOWS

(unaudited)

	(in thousands of dollars)			
	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
<b>OPERATING ACTIVITIES</b>				
Net income for the period	\$ 12,969	\$ 9,620	\$ 25,035	\$ 21,213
Items not involving cash				
Depreciation	15,469	17,109	33,601	34,017
Amortization of deferred financing fees	410	395	792	932
Accretion expense	3,621	741	4,372	1,481
Allowance for funds used during construction	(3,904)	(3,216)	(6,888)	(5,512)
Gains on disposals of assets	(2,152)	(157)	(3,654)	(168)
Asset retirement obligations settled	(175)	(3)	(414)	(414)
Change in regulatory assets and liabilities	(577)	(1,605)	(93)	(970)
Change in other non-cash items	424	700	51	295
Funds generated from operations	26,085	23,584	52,802	50,874
Change in non-cash working capital items related to operations	(10,546)	(2,377)	(5,160)	25,935
Cash provided by operating activities	15,539	21,207	47,642	76,809
<b>INVESTING ACTIVITIES</b>				
Capital expenditures	(65,022)	(40,100)	(111,879)	(77,499)
Use of customer contributions	4,132	11,563	9,190	11,792
Proceeds from the sale of assets	2,200	156	3,703	171
Cash used in investing activities	(58,690)	(28,381)	(98,986)	(65,536)
<b>FINANCING ACTIVITIES</b>				
Issuance of senior debt	102,864	100,070	102,864	100,070
Repayment of senior debt	(65)	(100,067)	(65)	(100,067)
(Decrease) increase in commercial paper and bank credit	(80,793)	13,432	(81,922)	(383)
Distributions to partners	(5,700)	(5,500)	(11,400)	(10,900)
Equity investment received	27,500	—	42,500	—
Net change in other financing activities <i>[note 11]</i>	(655)	(761)	(633)	7
Cash provided by (used in) financing activities	43,151	7,174	51,344	(11,273)
<b>Net increase in cash and cash equivalents</b>	—	—	—	—
Cash and cash equivalents, beginning of period	—	—	—	—
<b>Cash and cash equivalents, end of period</b>	\$ —	\$ —	\$ —	\$ —
<b>Cash interest paid during the period</b>	\$ 16,321	\$ 13,998	\$ 22,674	\$ 21,131

See accompanying notes to the financial statements

### 1. NATURE OF OPERATIONS

AltaLink, L.P. (the Partnership or AltaLink) was formed under the laws of the Province of Alberta in Canada on July 3, 2001, and is managed by AltaLink Management Ltd. (the General Partner). The Partnership's registered office is located at 2611-3<sup>rd</sup> Avenue SE, Calgary, Alberta, Canada T2A 7W7. The Partnership has one limited partner, AltaLink Investments, L.P. The Partnership was formed to own and operate regulated transmission assets in Alberta. Although the General Partner holds legal title to the assets, the Partnership is the beneficial owner and assumes all risks and rewards of the assets.

Under the current ownership structure, SNC-Lavalin Inc. indirectly owns 76.915% of AltaLink, L.P. through subsidiaries, and Macquarie Transmission Alberta Ltd. owns the remaining 23.075% limited partnership interest.

During the periods ended June 30, 2009 and 2008, AltaLink operated in one primary reportable geographical and business segment, the ownership and operation of regulated electricity transmission facilities in the Province of Alberta. For the period ended June 30, 2009, approximately 96% of the Partnership's revenue (*Transmission tariff and Allowance for equity funds used during construction*) is attributable to the Alberta Electrical System Operator (AESO) (June 30, 2008 – 96%).

### 2. BASIS OF ACCOUNTING

The Partnership's management has prepared the interim financial statements of AltaLink, L.P. (the Partnership or AltaLink) in accordance with Canadian generally accepted accounting principles following the same accounting policies and methods of computation as the financial statements for the twelve months ended December 31, 2008, except for the changes in accounting policies cited in Note 3, upon the initial adoption of new accounting standards. These interim financial statements do not include all of the disclosures required in annual financial statements.

Accordingly, these interim financial statements should be read in conjunction with the Partnership's financial statements for the year ended December 31, 2008. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the twelve months ending December 31, 2009.

The interim financial statements were approved by the Board of Directors on July 29, 2009.

### 3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

#### Changes affecting the current and comparative period financial statements

##### a) *Capital disclosures*

As described in note 8, effective January 1, 2008, the Partnership adopted CICA Handbook Section 1535, *Capital Disclosures*. This section requires the Partnership to disclose AltaLink's capital structure, description of and compliance with externally imposed capital requirements and the Partnership's objectives, policies and processes for managing its capital.

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**3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES [CONT'D]****Changes affecting the current and comparative period financial statements [cont'd]****b) Inventories**

Effective January 1, 2008, the Partnership adopted the CICA Handbook Section 3031, *Inventories* for measurement and disclosure of inventories. The standard provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value, and on cost formulas used to assign costs to inventories. The standard also indicated that spare parts may be included in property, plant and equipment if they met certain criteria in line with the provisions of the standard. As a result of reviewing its inventory, the Partnership reclassified all of its materials and supplies and construction materials and supplies (June 30, 2009 - \$18.0 million; December 31, 2008 -\$13.2 million) to property, plant and equipment.

**c) Goodwill and intangible assets**

In February 2008, the CICA issued Section 3064, *Goodwill and intangible assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Effective January 1, 2009, the Partnership adopted the new standards for its fiscal year beginning January 1, 2009. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062, and as a result, there is no impact on AltaLink's financial statements.

**d) Accounting for rate regulated operations**

Beginning on January 1, 2009, Section 1100 of the CICA Handbook, *Generally Accepted Accounting Principles* was amended to remove a temporary exemption pertaining to the recognition of assets and liabilities arising from rate regulation. In addition, effective the same date, Section 3465 of the CICA Handbook, *Income Taxes* was also amended. There are no changes to the Partnership's financial statements other than the prospective reclassification at January 1, 2009 of \$145.4 million from property, plant and equipment to the provision for future removal and site restoration which is included in regulatory liabilities on the balance sheet. There is no impact on AltaLink's net income as a result of this change.

**4. ASSET RETIREMENT OBLIGATIONS**

As of June 30, 2009 the estimated total undiscounted amount of asset retirement obligations was approximately \$440.1 million (December 31, 2008 - \$130.7 million). The obligations will be settled over the useful lives of the assets, with the majority of the retirements estimated to occur between 2009 and 2047. Discount rates, adjusted for credit risks and inflation factors, ranging from 4.13% to 7.46% were used to calculate the carrying value of the asset retirement obligations. The depreciation rates included in the regulatory revenue requirements include an amount to enable AltaLink to cover the costs of present and future asset retirement obligations. As depreciation expense is recovered through the General Tariff Application (GTA) process, there is no net income effect on AltaLink's financial statements.

During the second quarter of 2009, the Partnership updated its estimate of costs resulting in an increase in the discounted asset retirement obligations of \$86.6 million. The change is mainly the result of an increase in labour costs, which were determined by an independent third party.

**4. ASSET RETIREMENT OBLIGATIONS [CONT'D]**

	At June 30, 2009	At December 31, 2008
(in thousands of dollars)		
Balance, beginning of period	\$ 60,181	\$ 57,954
Net change in estimate of obligations	84,686	1,915
Liabilities settled in the period	(414)	(2,651)
Accretion expense	4,372	2,963
<b>Balance, end of period</b>	<b>\$ 148,825</b>	<b>\$ 60,181</b>

**5. PROPERTY, PLANT, AND EQUIPMENT**

	At June 30, 2009			At December 31, 2008		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
(in thousands of dollars)						
Transmission network	\$ 1,395,026	\$ (213,851)	\$ 1,181,175	\$ 1,367,392	\$ (329,836)	\$ 1,037,556
500kV project costs	38,652	(1,761)	36,891	38,652	(1,343)	37,309
Assets under construction	203,020	—	203,020	112,978	—	112,978
Long-lived asset <sup>1</sup>	128,712	(29,949)	98,763	45,185	(22,592)	22,593
Spare parts	17,988	—	17,988	13,170	—	13,170
	<b>\$ 1,783,398</b>	<b>\$ (245,561)</b>	<b>\$ 1,537,837</b>	<b>\$ 1,577,377</b>	<b>\$ (353,771)</b>	<b>\$ 1,223,606</b>

<sup>1</sup> Long-lived asset is an offset to the Asset Retirement Obligations.

The total amount of allowance for funds used during construction for the six months ended June 30, 2009 was \$6.888 million (\$5.512 million for the six months ended June 30, 2008) and \$3.904 million for the second quarter of 2009 (\$3.216 million for the second quarter of 2008).

Approximately \$38.7 million in capital expenditures was incurred related to the Edmonton to Calgary 500kV transmission line project and is included in property, plant and equipment. AltaLink incurred these expenditures pursuant to direction letters issued by the AESO, which is a normal step in the regulatory process. In addition, the AESO has acknowledged that these costs should be recovered and that it is prepared to support AltaLink in an application for recovery. It is the opinion of management that these expenditures will be recovered through the regulatory process. In the 2009-2010 GTA, AltaLink has requested approval from the Alberta Utilities Commission (AUC) to include these costs in rate base, effective December 31, 2007. Should a need for an adjustment arise as a result of the regulatory process, management will reflect the impact in the financial statements related to the period when the regulatory decision is made.



# AltaLink, L.P.

## Notes to the Financial Statements

(unaudited)

### 6. DEBT

	Effective interest rate	Maturing	At June 30, 2009	At December 31, 2008
(in thousands of dollars)				
Senior Debt				
Series 03-2, 5.430%	5.804%	2013	\$ 325,631	\$ 325,701
Series 2006-1, 5.249%	5.299%	2036	150,000	150,000
Series 2008-1, 5.243%	5.322%	2018	100,000	100,000
Series 2008-1 (additional issue), 5.243%	5.328%	2018	102,468	—
			678,099	575,701
Series 3, subordinated 8.000% [note 10]	8.020%	2012	85,000	85,000
Commercial paper	0.620%	2012	74,924	26,951
Bank credit facilities	N/A	2012	8,241	137,735
			846,264	825,387
Less: Deferred financing fees				
Series 03-2, 5.430%			4,292	4,769
Series 2006-1, 5.249%			1,077	1,086
Series 2008-1, 5.243%			919	891
Series 3, 8.000%			48	55
Series 2008-1 (additional issue), 5.243%			605	56
			6,941	6,857
Total debt, net of deferred financing fees			839,323	818,530
Less: current portion of long-term debt			367	142
<b>Total long-term debt</b>			<b>\$ 838,956</b>	<b>\$ 818,388</b>

The Partnership intends to hold all of its long-term debt to maturity.

On May 16, 2008, the Partnership filed a short form base shelf prospectus to facilitate the issuance of medium-term notes. This shelf prospectus has a 25 month life and permits the Partnership to issue up to an aggregate of \$800.0 million of secured, medium-term notes. On May 14, 2009, \$100.0 million of additional Series 2008-1 medium-term notes were issued under the shelf prospectus and the proceeds were used to repay outstanding commercial paper and fund the capital expenditure program. The Series 2008-1 notes are senior secured obligations of the Partnership. Collateral for the secured debt obligations consist of a fixed, floating charge security interest on the Partnership's present and future assets. The notes were issued at a premium of \$2.6 million which has increased the short-term portion of long-term debt by \$0.3 million. The premium will be amortized over the term of the related debt.

### 6. DEBT [CONT'D]

#### a) *Capital markets platform*

The Partnership has developed a financing structure referred to as the “Capital Markets Platform” to finance the operation, maintenance and development of its assets. This structure is capable of accommodating a variety of debt instruments and borrowings, including term bank debt, revolving bank lines of credit, publicly-issued and privately-placed term debt securities, bankers’ acceptances, commercial paper and medium-term notes.

The Partnership has entered into a Master Trust Indenture (MTI) dated April 28, 2003 between the Partnership, the General Partner and BNY Trust Company of Canada, as trustee. The MTI establishes a set of common covenants by the Partnership for the benefit of all of its lenders under the Capital Markets Platform. All indebtedness of the Partnership is intended to be governed under the Capital Markets Platform where, among other things, the ranking and security (if any) of the various debt instruments are determined. The Partnership is not permitted to borrow other than under the Capital Markets Platform, except in certain limited circumstances and, in any event, not in excess of an aggregate of \$20.0 million. One of the principal covenants is that AltaLink cannot become liable for any indebtedness, unless the aggregate amount of all indebtedness does not exceed 75% of the total capitalization. Indebtedness is calculated as total short-term and long-term debt adjusted for deferred financing fees. Total capital is calculated as equity plus indebtedness.

Under the MTI, the Partnership may issue two categories of debt, namely (i) senior debt and (ii) subordinated debt. Bonds may be issued as either “Obligation Bonds” (to directly evidence the indebtedness of the Partnership to the holder of such debt) or as “Pledged Bonds” (to be held by the holder as collateral security for the indebtedness specified in the related instrument of pledge). The specific terms and conditions of each series of bonds under the Capital Markets Platform are set forth in the series supplement authorizing the series. It is expected that publicly-issued and privately-placed bonds will be in the form of Obligation Bonds, whereas all other indebtedness of the Partnership under the Capital Markets Platform will be supported by Pledged Bonds.

The Partnership has secured the obligations relating to the Series 03-2 Senior Bonds, Series 3 Subordinated Bonds, Series 2006-1 Medium-term Notes, Series 2008-1 Medium-term Notes and its credit facilities. Collateral for the secured debt obligations consists of a first floating charge security interest on the Partnership’s assets. The Series 03-2 Senior Bonds, Series 2006-1 Medium-term Notes, Series 2008-1 Medium-term Notes and the credit facilities rank equally with each other and all future senior secured indebtedness that is issued by the Partnership.

#### *Interest expense and amortization of deferred financing fees*

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
(in thousands of dollars)				
Deferred financing fees amortized	\$ 410	\$ 395	\$ 792	\$ 932
Interest on debt	10,326	10,351	20,258	20,822
Total interest and amortization of deferred financing fees on debt	10,736	10,746	21,050	21,754
Less: short-term portion of interest on debt	—	—	—	—
Total long-term portion of interest and amortization of deferred financing fees	\$ 10,736	\$ 10,746	\$ 21,050	\$ 21,754

**7. FINANCIAL INSTRUMENTS**

**a) Fair value of financial instruments**

AltaLink has made the following classifications:

Financial Instrument	Designated Category	Measurement Basis	Associated Risks	Fair Value at June 30, 2009
Cash and cash equivalents	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Accounts receivable	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Regulatory assets, short-term and long-term	Loans and receivables	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to nature of asset <sup>4</sup>
Accounts payable and accrued liabilities	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to short-term nature
Regulatory liabilities, short-term and long-term	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to nature of liability <sup>4</sup>
Long-term debt	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Market</li> <li>• Liquidity</li> </ul>	\$864.0 million <sup>1</sup>
Contributions in advance of construction	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the asset <sup>2</sup>
Contributions in advance of construction liability	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the liability <sup>2</sup>
Operating and maintenance charges in advance	Held for trading	Fair value	<ul style="list-style-type: none"> <li>• Market</li> <li>• Credit</li> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the asset <sup>3</sup>
Operating and maintenance charges deferred revenue	Other liabilities	Initially at fair value and subsequently at amortized cost	<ul style="list-style-type: none"> <li>• Liquidity</li> </ul>	Approximates fair value due to the nature of the liability <sup>3</sup>

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### 7. FINANCIAL INSTRUMENTS [CONT'D]

#### a) *Fair value of financial instruments (cont'd)*

1. Fair values are determined using quoted market prices for the same or similar issues. Where market prices are not available, fair values are estimated using discounted cash flow analysis based on AltaLink's current borrowing rate for similar borrowing arrangements.
2. Contributions in advance of construction are held in short-term investments, the carrying values of which do not differ materially from the fair values. Contributions in advance of construction earned an effective interest rate of 0.26% at June 30, 2009 (December 31, 2008 - 1.49%). Interest received is accumulated throughout the year and paid annually to the AESO.
3. Operating and maintenance charges in advance are held in short-term investments, the carrying values of which do not differ materially from the fair values. Operating and maintenance charges in advance earned an effective interest rate of 0.26% at June 30, 2009 (December 31, 2008 - 1.49%).
4. Regulatory assets and liabilities are amounts collected in advance or under collected in revenue requirement which are settled either through a GTA or a separate filing. These amounts have typically been settled at or close to management's estimate.

AltaLink currently does not utilize hedges or other derivative financial instruments in its operations.

#### b) *Credit risk*

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause AltaLink to incur a financial loss. There is exposure to credit risk on all financial assets included in the balance sheet. To help manage this risk:

- There is a policy for establishing credit limits;
- Collateral may be required where appropriate; and
- Exposure to individual entities is managed through a system of credit limits.

The Partnership has a concentration of credit risk as approximately 92% of its accounts receivable balance is due from the AESO (December 31, 2008 – 95%). For the six months and the quarter ended June 30, 2009, transmission tariff revenues accounted for approximately 93% (for the six months and quarter ended June 30, 2008 – 94%) of operating revenues. The remainder was comprised mainly of revenue from tower and land leases and the provision of services to other utilities.

The AESO is the Independent System Operator established as a statutory corporation under the Electric Utilities Act of the Province of Alberta, whose board members are appointed by the Alberta Minister of Energy. The remainder of the receivables are mostly from investment grade entities.

To this date, the balance in the Partnership's allowance for doubtful accounts has been zero. As of June 30, 2009, over 98% of receivables have been outstanding for less than 30 days (December 31, 2008 – 99%).

The Partnership's maximum exposure to credit risk as at June 30, 2009, without taking into account collateral held, is represented by the current carrying value of accounts receivable, contributions in advance of construction, operating and maintenance charges in advance and regulatory assets as disclosed in these financial statements.

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## 7. FINANCIAL INSTRUMENTS [CONT'D]

### **c) Market Risk**

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Components of market risk to which AltaLink is exposed are discussed below.

#### **i) Interest Rate Risk**

All of the long-term debt issues, listed in the table in note 6, have been approved by the AUC before the debt was issued. Approximately 90% of the long-term debt has been approved by the AUC as regulatory debt, and the approved costs are fully recoverable in rates. As a result, the Partnership is not exposed to interest rate risk with respect to the cost of the approved component of long-term debt. The Partnership may be exposed to interest rate price risk for future debt issues as interest rates on new long-term debt issues are examined as part of the normal course of business of future general tariff applications.

The non-regulated components of the long-term debt have been issued at floating and fixed rates, maturing in 2012 and 2013, and the Partnership may be exposed to interest rate price risk upon renewal.

The Partnership's commercial paper, bankers' acceptances and bank loans have variable interest rates and, accordingly, expose the Partnership to interest rate cash flow risk through fluctuations in the variable interest rates.

To help manage interest rate risk, AltaLink controls the proportion of fixed and variable rate positions in accordance with target levels; ensures access to diverse sources of funding; and, reduces refinancing risk by establishing and managing in accordance with target maturity profiles, which means managing the maturity dates of its debt obligations so they do not all mature at the same time.

The Partnership's commercial paper, bankers' acceptances and bank loans are not subject to deferral account treatment. AltaLink forecasts the interest rate on its commercial paper, bankers' acceptances and bank loans in the GTA and is subject to interest rate risk. As at June 30, 2009, the Partnership had \$74.9 million of commercial paper outstanding at an average rate of 0.62%. A 10% increase in short-term interest rates (6 basis points) would produce an increase in interest expense and reduction in net income for the quarter of \$0.01 million.

#### **ii) Foreign Exchange Risk**

AltaLink does not have a significant exposure to foreign exchange risk.

### **d) Liquidity Risk**

Liquidity risk includes the risk that, as a result of AltaLink's operational liquidity requirements:

- It will not have sufficient funds to settle a transaction on the due date;
- It will be forced to sell financial assets at a value which is less than what they are worth; and,
- It may be unable to settle or recover a financial asset at all.

To manage this risk, AltaLink has readily accessible standby credit facilities and other funding arrangements in place; generally uses financial instruments that are tradeable in highly liquid markets; and, has a liquidity portfolio structure that requires surplus funds to be invested in highly liquid financial instruments.

# AltaLink, L.P.

## Notes to the Financial Statements

(unaudited)

### 8. CAPITAL RISK MANAGEMENT

AltaLink's objectives when managing capital are to safeguard the Partnership's ability to continue as a going concern, so that it can continue to provide returns for partners and maintain an optimal capital structure to reduce the cost of capital for customers and other stakeholders. In order to maintain or adjust the capital structure, AltaLink may adjust the amount of distributions paid to partners, return capital to partners or request new contributions from partners.

#### Summary of capital structure

	At June 30, 2009		At December 31, 2008	
	(millions)	%	(millions)	%
Total long-term debt <sup>1</sup>	\$ 845.9	60.0	\$ 825.2	61.9
Partners' equity	563.5	40.0	507.3	38.1
Total	\$ 1,409.4	100.0	\$ 1,332.5	100.0

1. The June 30, 2009 balance does not include deferred financing fees of \$6.9 million (December 31, 2008 - \$6.9 million)

In managing its capital, the Partnership includes partners' equity, long-term debt, and cash and cash equivalents in the definition of capital.

As at June 30, 2009, the Partnership has externally imposed capital requirements by virtue of the Master Trust Indenture and the bank credit facilities described in note 6 to which it is subject, that limit the amount of debt that can be incurred relative to equity. The Partnership was in compliance with these externally imposed capital requirements as at June 30, 2009.

### 9. EMPLOYEE FUTURE BENEFITS

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
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(in thousands of dollars)

Pension and other post-employment benefit expense consists of:

Other post-employment benefits	\$ 120	\$ 142	\$ 241	\$ 285
Supplemental pension expense	17	17	33	34
	\$ 137	\$ 159	\$ 274	\$ 319

**10. RELATED PARTY TRANSACTIONS**

In 2002, AltaLink executed a ten-year contract with SNC-Lavalin Inc., for the provision of engineering, procurement and construction management services for directly assigned capital projects undertaken by AltaLink. These services have been provided to AltaLink on behalf of SNC-Lavalin Inc. by its subsidiary, SNC-Lavalin ATP Inc. (SNC-ATP). The terms and conditions of this contract were reviewed by the AUC in Decision 2003-061 and subsequent decisions. The terms and conditions continue to be subject to regulatory oversight, including review by the AUC Audit and Compliance Group.

In the six months ended June 30, 2009, AltaLink paid SNC-ATP \$48.3 million for construction related services, which are capitalized in various projects, compared to \$24.7 million for the six months ended June 30, 2008 (\$30.2 million for the second quarter of 2009 compared to \$14.4 million for the second quarter of 2008).

Amounts due from (to) related parties included in accounts receivable and accounts payable are:

	At June 30, 2009	At December 31, 2008
(in thousands of dollars)	Amount owed (to)/from related parties	Amount owed (to)/from related parties
AltaLink Management Ltd.	\$ (3,526)	\$ (4,873)
SNC-Lavalin ATP Inc.	(30,585)	(17,231)
AltaLink Investments, L.P.	(1,136)	(1,092)
AltaLink Investment Management Ltd.	—	4
AltaLink Holdings, L.P.	—	224

**11. NET CHANGE IN OTHER FINANCING ACTIVITIES**

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
(in thousands of dollars)				
Settlement of deferred financing fees	\$ (655)	\$ (761)	\$ (633)	\$ (768)
Increase in contributions in advance of construction	1,736	7,440	(19,041)	5,992
Increase in contributions in advance of construction liability	(1,736)	(7,440)	19,041	(5,217)
Increase in operating and maintenance charges in advance	(2,223)	(1,194)	(4,858)	(1,653)
Increase in operating and maintenance charges deferred revenue	2,223	1,194	4,858	1,653
	<b>\$ (655)</b>	<b>\$ (761)</b>	<b>\$ (633)</b>	<b>\$ 7</b>

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### 12. REGULATORY DECISIONS

The effects of the following Decisions have been reflected in these financial statements:

#### a) Interim Tariff for 2009

On December 9, 2008, the Partnership received Decision 2008-129 approving an interim tariff effective January 1, 2009, representing a 3% increase over the 2008 tariff. The AUC's hearing on AltaLink's 2009-2010 GTA was held in April 2009 and it is expected that the AUC will issue its decision in the fourth quarter of 2009.

#### b) 2004-06 Deferral Accounts

Decision 2008-076 was issued on August 26, 2008 confirming full recovery of the Direct Assign capital deferral account for May 2004 through December 2006 and the disposition of other deferral accounts. On January 30, 2009, the Partnership was directed to settle the related regulatory assets and liabilities with the AESO in the amount of \$1.4 million, which was paid on February 17, 2009.

### 13. CONTINGENCIES

In Decision 2007-012, the AUC directed the Partnership to use the flow-through (i.e. current taxes payable) method for determining deemed federal and provincial income tax expenses to be included in its revenue requirement for 2009 and subsequent years. The AUC also indicated that a determination with respect to the accumulated but unpaid future income tax amounts as at December 31, 2008 would have to be made. Accordingly, the AUC directed the Partnership in its next general tariff application to propose options to address the disposition of these amounts. In its 2009-2010 GTA, filed with the AUC on September 16, 2008, the Partnership requested a delay in the implementation of future income tax related directives in Decision 2007-012 until the anticipated major transmission construction projects had been completed. As disposition of these matters is the subject of a current regulatory proceeding, the outcome of which will not be known until the fourth quarter of 2009, management is unable at this time to determine the impact on the Partnership's financial position. As a result, no amounts have been accrued in relation to these matters at June 30, 2009.

In addition, from time to time, the Partnership is subject to other legal proceedings, assessments and claims in the ordinary course of business. The Partnership was served with an action on June 5, 2009 alleging that the Plaintiff and AltaLink had concluded a binding agreement for the sale to the Plaintiff of certain lands. At this time, in the opinion of management, none of these matters is reasonably expected to result in a material adverse effect on the Partnership's financial position.

### 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.